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State of Montana
Office of the Legislative Auditor
REPORT TO THE LEGISLATURE
THE BOARD OF REGENTS
AND
THE COMMISSIONER OF HIGHER EDUCATION

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

This report contains four recommendations
for improvement of CHE's operations.

The major items addressed in the report concern:

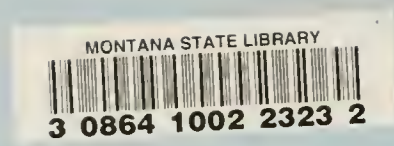
- Compliance with state appropriation laws.
- Compliance with other state and federal laws and regulations.



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87-5

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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STATE OF MONTANA

Office of the Legislative Auditor

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HELENA, MONTANA 59620
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SCOTT A. SEACAT

LEGAL COUNSEL:
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MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

May 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Commissioner of Higher Education Office and the Board of Regents of Higher Education for the two fiscal years ending June 30, 1987. Included in this report are four recommendations. These recommendations concern compliance with appropriation laws and other state and federal laws and regulations. CHE's written response to audit recommendations is included in the back of the audit report.

We thank the commissioner and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", followed by a large, stylized flourish or checkmark-like stroke.
Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

THE BOARD OF REGENTS

AND

THE COMMISSIONER OF HIGHER EDUCATION

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1987

Audit staff involved in this audit included: Julie Barr, Jody Bisom, Susan Fleming, and Jerry Kozak.

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APPOINTED AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		<u>Term Expires</u>
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendent of Public Instruction*		1988
Dennis E. Lind, Chairman	Missoula	1989
Burt Hurwitz, Vice Chairman	White Sulphur Springs	1993
Beatrice McCarthy	Anaconda	1990
Elsie Redlin	Lambert	1991
Jim Kaze	Havre	1992
William L. Mathers	Miles City	1994
Leslie L. Kehoe, Student Representative	Bozeman	1988

*Ex officio member

ADMINISTRATIVE OFFICIALS

Carrol Krause	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u>	
CHE:	
A. Limit expenditures to those authorized by the legislature.	4
Agency Response: Concur. See page 28.	
B. Compensate board members in compliance with state law.	4
Agency Response: Concur. See page 28.	
C. Charge expenditures to the proper fiscal year.	4
Agency Response: Concur. See page 28.	
<u>Recommendation #2</u>	
CHE:	
A. Amend its fee waiver policy to comply with state laws; or	4
Agency Response: No Response. See page 28.	
B. Seek legislation to change the state laws concerning fee waivers.	4
Agency Response: No Response. See page 28.	
<u>Recommendation #3</u>	
CHE submit federal reports in accordance with federal reporting requirements.	5
Agency Response: Concur. See page 29.	
<u>Recommendation #4</u>	
CHE:	
A. Adequately document GSL program reviews.	6
Agency Response: Concur. See page 29.	
B. Perform a secondary review of GSL program review workpapers and reports.	6
Agency Response: Concur. See page 29.	

INTRODUCTION

We performed a financial-compliance audit of the Commissioner of Higher Education (CHE) and the Board of Regents of Higher Education (board) for the two fiscal years ended June 30, 1987. The objectives of our audit were to:

- 1) determine compliance with applicable state and federal laws and regulations;
- 2) provide recommendations for improving management and internal controls of CHE;
- 3) express an opinion on CHE's and board's financial schedules for the two fiscal years ended June 30, 1987; and
- 4) determine the implementation status of prior audit recommendations.

This report contains four recommendations to CHE. These recommendations address areas where management, internal control and compliance with laws and regulations can be improved. Other areas of concern deemed not to have significant effect on the successful operations of CHE are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report.

BACKGROUND

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the board to govern and control the Montana University System. The board is also vested with the general supervision of community colleges. Effective July 1, 1987, the board was given general administrative and supervisory control over the vocational-technical centers. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and State Superintendent of Public Instruction are ex officio members of the board.

Commissioner of Higher Education

Article X of the Montana Constitution requires the board to appoint a Commissioner of Higher Education and prescribe the term and duties of CHE.

The commissioner is responsible for overall supervision and coordination of units of the university system. This includes academic planning and curriculum review, budgetary planning and control, legal services, and labor negotiation policies and procedures.

The commissioner also administers student assistance programs and federally funded programs. Student assistance programs include the Washington, Alaska, Montana, Idaho (WAMI) cooperative medical program, the Western Interstate Commission for Higher Education (WICHE), State Student Incentive Grants (SSIG), and the Guaranteed Student Loan Program (GSL). The Montana Guaranteed Student Loan Program, established by the 1979 Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. The Montana Higher Education Student Assistance Corporation sells tax-exempt bonds to allow the lender institutions to sell their loans to a secondary market. We have issued separate, unqualified opinions on the fiscal years 1985-86 and 1986-87 Guaranteed Student Loan financial statements which were prepared to assist in selling the bonds. Federal programs include grants for Talent Search and Education for Economic Security. The office was authorized 28.50 FTE for both fiscal year 1985-86 and fiscal year 1986-87.

PRIOR AUDIT RECOMMENDATIONS

Our prior audit report for CHE and the board was issued for the two fiscal years ended June 30, 1985. Of the three recommendations still applicable to CHE's operations, two have been implemented and one partially implemented. The one recommendation which was partially implemented during the audit period pertains to federal reporting requirements and is discussed on page 5.

STATE COMPLIANCE

We reviewed selected state laws and regulations pertaining to CHE. The following sections discuss state compliance issues we noted during our audit.

Appropriations

The Legislature appropriates moneys to fund the operations of the board and CHE. House Bill 30, Special Session, June 1986, separately appropriated

funds to each agency. In our review of CHE and board operations we noted the following problems:

- 1) During fiscal year 1985-86, CHE did not pay \$4,200 of per diem to board members. Section 2-15-124 and 20-2-113, MCA's, state board members shall be compensated \$50 for each day in attendance at a board meeting or in performance of any duty or service as a board member.
- 2) CHE paid out of its own appropriation authority, \$1,142 and \$7,986 of board expenditures in fiscal year 1985-86 and fiscal year 1986-87, respectively. Expenditures should be charged to the agency and appropriation for which the services are provided.
- 3) CHE charged \$115 of fiscal year 1985-86 board travel expenditures to the board's fiscal year 1986-87 appropriation. State policy requires expenditures be accounted for in the period in which incurred.

As a result of not paying and properly recording the expenditures, the board's accounting records do not accurately reflect the cost of operations of the board. If the above mentioned laws and policies had been complied with, it would have overspent its appropriation authority by \$5,457 in fiscal year 1985-86 and \$7,986 in fiscal year 1986-87. This represents 24 percent and 30 percent of the board's fiscal year 1985-86 and 1986-87 appropriation authority, respectively. Section 17-8-103, MCA, states it is unlawful to expend in excess of the legislative appropriation.

The 49th legislative session amended section 2-15-124, MCA, to increase the board's per diem from \$25 to \$50 per day. The board did not receive additional funding in fiscal year 1985-86 for the increase in per diem. When the board exhausted its appropriation authority, the board members agreed to waive the required per diem.

In order to alleviate this problem in the future, the board could seek legislation to appropriate funds for the board as an item within CHE's appropriation. This would allow CHE to use a program transfer to allocate a portion of its appropriation authority to the board.

RECOMMENDATION #1

WE RECOMMEND CHE:

- A. LIMIT EXPENDITURES TO THOSE AUTHORIZED BY THE LEGISLATURE.
- B. COMPENSATE BOARD MEMBERS IN COMPLIANCE WITH STATE LAW.
- C. CHARGE EXPENDITURES TO THE PROPER FISCAL YEAR.

Fee Waivers

Sections 10-2-311 and 53-30-213, MCA, state that honorably discharged state veterans and custodial residents of state institutions shall not be charged fees and tuition by any of the units in the Montana University System. In addition, section 20-25-505, MCA, entitles Indian students to enroll in any of the units without payments of fees. During fiscal year 1986-87, the university system budgeted for 437 Indian, 162 veteran, and 2 custodial resident fee waivers.

According to CHE policy, the units of the Montana University System are only authorized to waive registration and incidental fees for these students. In addition to incidental fees, the units also assess each student computer, building, activity, and health fees. CHE personnel stated some of the fees are not waived because the fees are contractually pledged to bond indentures. Also, CHE personnel believed tuition and fees only included tuition and incidental fees and not any other types of fees. The board's policy limiting statutory fee waivers to registration and incidental fees is currently being challenged in litigation. Depending on the outcome, CHE should either authorize waiving all fees applicable to these students or seek legislation to change the state laws.

RECOMMENDATION #2

WE RECOMMEND CHE:

- A. AMEND ITS FEE WAIVER POLICY TO COMPLY WITH STATE LAWS;
OR
- B. SEEK LEGISLATION TO CHANGE THE STATE LAWS CONCERNING FEE WAIVERS.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with requirements of the U.S. Office of Management and Budget (OMB) Circular A-128. The following sections discuss federal compliance issues we noted during our audit.

Reporting Requirements

Federal agencies establish deadlines for receiving reports submitted by grantees. CHE is required to submit its State Student Incentive Grant (SSIG) (CFDA #84.069) report to the Department of Education by October 30th each year. CHE did not submit the report by the initial deadline and received extensions through December 15, 1987. However, it did not submit the report until two weeks after that.

CHE officials stated the SSIG report was submitted late because they did not have all the information from various institutions needed to prepare the report. Late submission of federal reports was noted during our last three audits of CHE.

RECOMMENDATION #3

WE RECOMMEND CHE SUBMIT FEDERAL REPORTS IN ACCORDANCE WITH FEDERAL REPORTING REQUIREMENTS.

GSL Program Reviews

To ensure schools of higher education are complying with federal regulations, CHE's Guaranteed Student Loan (GSL) Program (CFDA #84.032) personnel perform reviews of student files at the schools. Currently, one individual performs the reviews and writes the reports. No one performs a secondary review of the workpapers or reports. According to the GSL procedure manual, the report is to be submitted to the director of the GSL program for approval. CHE performed reviews at 13 schools of higher education during fiscal year 1985-86. We reviewed four of them and noted the procedures performed, the problems identified, and related resolutions of those problems

were inadequately documented. GSL personnel stated that documentation is done only when a deficiency is noted. Personnel also stated the secondary review policy is being removed from the manual since personnel are confident with the individual's work.

Since only one person performs the program reviews, the workpapers should contain adequate documentation, in the event the employee is absent or terminates, to enable others to understand what work was performed and the results. In addition, a secondary review provides assurance information in the workpapers or report is correct, assurance the findings are adequately supported, and assurance the findings are reported. CHE officials stated another program reviewer is being hired as part of the expansion of the GSL program. With the additional staff, a secondary review of the work papers can be performed.

RECOMMENDATION #4

WE RECOMMEND CHE:

- A. ADEQUATELY DOCUMENT GSL PROGRAM REVIEWS.
- B. PERFORM A SECONDARY REVIEW OF GSL PROGRAM REVIEW WORKPAPERS AND REPORTS.

AUDITOR'S OPINION LETTER

AND

COMMISSIONER OF HIGHER EDUCATION'S FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION (CHE)

We issued a qualified opinion on the Schedule of Budgeted Revenue and Transfers In - Fiscal Year 1985-86 of the Commissioner of Higher Education. A qualified opinion means that because CHE did not reasonably estimate the GSL administrative cost allowance, the reader should exercise caution when using financial information on the Statewide Budgeting and Accounting System.

The unqualified opinion issued on the remaining schedules means that the reader may rely on the reasonableness of the financial information presented in these schedules and the related information on the Statewide Budgeting and Accounting System.



LEGISLATIVE AUDITOR:
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LEGAL COUNSEL:
JOHN W. NORTHEY

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DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Commissioner of Higher Education (CHE) for each of the two fiscal years ending June 30, 1986 and 1987 as shown on pages 9 through 17. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

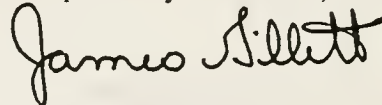
As described in Note 1 to the financial schedules, CHE financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

CHE did not reasonably estimate the accrual of the Guaranteed Student Loan Program (GSL) Administrative Cost Allowance for fiscal year 1985-86. This resulted in the Special Revenue Fund's Federal Actual Revenue on the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual being understated by \$180,831.

In our opinion, except for the effects of the matter described in paragraph three, the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, presents fairly the results of operations of the Commissioner of Higher Education for the fiscal year ended June 30, 1986 in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

In our opinion the Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1987, the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual for the Fiscal Year Ended June 30, 1987, and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund for the fiscal years ended June 30, 1986 and 1987, present fairly the results of operations and the changes in fund balances of the Commissioner of Higher Education in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "Gillett".

James Gillett, CPA
Deputy Legislative Auditor

February 24, 1988

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise¹ Fund</u>
FUND BALANCE: July 1, 1985	\$ <u>-0-</u>	\$ <u>2,982,162</u>	\$ <u>-0-</u>
ADDITIONS:			
<u>Fiscal Year 1985-86</u>			
Budgeted Revenue		1,252,072	
Nonbudgeted Revenue	1,578		
Prior Year Revenue Adjustments		(13,778)	
Support from State of Montana	88,654,459 ²		
Cash Transfer In		17,087,082 ²	
<u>Fiscal Year 1986-87</u>			
Budgeted Revenue		1,503,782	7,721,824
Prior Year Revenue Adjustments		213,560	
Support from State of Montana	79,565,869 ²		
Cash Transfer In		17,349,930 ²	
Direct Entries to Fund Balance			3,205,876
Total Additions	<u>168,221,906</u>	<u>37,392,648</u>	<u>10,927,700</u>
REDUCTIONS:			
<u>Fiscal Year 1985-86</u>			
Budgeted Expenditures & Transfers Out	88,729,605 ²	17,960,407 ²	
Prior Year Expenditures Adjustments	(3,264)	(118,166)	
Prior Year Transfer Out Adjustments	(70,304)		
<u>Fiscal Year 1986-87</u>			
Budgeted Expenditures & Transfers Out	79,572,451 ²	22,987,054 ²	7,283,058
Nonbudgeted Expenditures & Transfers Out			57,123
Prior Year Expenditures Adjustments	(6,582)	(9,204)	
Total Reductions	<u>168,221,906</u>	<u>40,820,091</u>	<u>7,340,181</u>
FUND BALANCE: June 30, 1987	\$ <u>-0-</u>	\$ <u>(445,281)³</u>	\$ <u>3,587,519</u>

¹ See footnote six on page 16.

² See footnote five on page 16.

³ See footnote seven on page 16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Charges for Services</u>	<u>Investment Earnings</u>	<u>Federal Indirect Cost Recoveries</u>	<u>Federal</u>	<u>Contributions and Premiums</u>	<u>Total</u>
SPECIAL REVENUE FUND						
Estimated Revenue	\$ 938,500	\$250,000	\$11,186	\$590,472		\$ 1,790,158
Actual Revenue	<u>490,080</u>	<u>285,787</u>	<u>11,186</u>	<u>716,729</u>		<u>1,503,782</u>
Collections Over						
(Under) Estimate	\$ <u>(448,420)</u>	\$ <u>35,787</u>	<u>-0-</u>	<u>\$126,257</u>		\$ <u>(286,376)</u>
ENTERPRISE FUND ¹						
Estimated Revenue		\$250,000			\$ 8,700,000	\$ 8,950,000
Actual Revenue		<u>300,464</u>			<u>7,421,360</u>	<u>7,721,824</u>
Collections Over						
(Under) Estimate		\$ <u>50,464</u>			\$ <u>(1,278,640)</u>	\$ <u>(1,228,176)</u>

¹See footnote six on page 16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Charges for <u>Services</u>	Investment <u>Earnings</u>	Federal Indirect Cost <u>Recoveries</u>	<u>Federal</u>	<u>Total</u>
SPECIAL REVENUE FUND					
Estimated Revenue	\$390,000	\$190,000	\$ 10,370	\$ 784,122	\$ 1,374,492
Actual Revenue	<u>404,059</u>	<u>251,568</u>	<u>-0-</u>	<u>596,445</u>	<u>1,252,072</u>
Collections Over (Under) Estimate	\$ <u>14,059</u>	\$ <u>61,568</u>	\$ <u>(10,370)</u>	\$ <u>(187,677)</u>	\$ <u>(122,420)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Commissioner of Higher Education	Student Assistance	Education For Economic Security Grant	Community College Assistance	Montana University System Group Insurance	Talent Search	Appropriation Distribution	Federal Indirect Cost Recoveries	Guaranteed Student Loan	Total
PERSONAL SERVICES										
Salaries	\$442,850				\$ 28,940	\$ 95,985		\$ 7,711	\$ 126,926	\$ 702,412
Hourly Wages	1,962									1,962
Other Compensation	3,860									3,860
Employee Benefits	80,804				5,926	22,360			25,648	134,738
Total	<u>529,476</u>				<u>34,866</u>	<u>118,345</u>		<u>7,711</u>	<u>152,574</u>	<u>842,972</u>
OPERATING EXPENSES										
Contracted Services	31,330				47,900	1,983			621,615	702,828
Supplies & Materials	15,405				387	2,450		339	5,918	24,499
Communications	25,984		\$ 7		1,517	5,683			13,844	47,035
Travel	16,645		1,722		964	10,400			19,329	49,060
Rent	82,045					57		2,880	14,650	99,632
Utilities	8,348				4,480			256		13,084
Repair & Maintenance	7,212		13		3,608	248			3,728	14,809
Other Expenses	12,470		25		229,448	11,765			4,508	258,216
Total	<u>199,439</u>		<u>1,767</u>		<u>288,304</u>	<u>32,586</u>		<u>3,475</u>	<u>683,592</u>	<u>1,209,163</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	19,231				2,024				28,955	50,210
Total	<u>19,231</u>				<u>2,024</u>				<u>28,955</u>	<u>50,210</u>
LOCAL ASSISTANCE										
From State Sources		\$ 56,000		\$3,040,470 ²						3,096,470
Total		<u>56,000</u>		<u>3,040,470</u>						<u>3,096,470</u>
GRANTS										
From State Sources		4,340,039								4,340,039
From Federal Sources		233,047	53,423							286,470
Total		<u>4,573,086</u>	<u>53,423</u>							<u>4,626,509</u>
BENEFITS & CLAIMS										
Insurance Payments					6,957,864					6,957,864
Total					<u>6,957,864</u>					<u>6,957,864</u>
TRANSFERS										
Accounting Entity Transfers							\$93,059,375 ²			93,059,375
Total							<u>93,059,375</u>			<u>93,059,375</u>
TOTAL PROGRAM EXPENDITURES	<u>\$748,146</u>	<u>\$4,629,086</u>	<u>\$55,190</u>	<u>\$3,040,470</u>	<u>\$7,283,058</u>	<u>\$150,931</u>	<u>\$93,059,375</u>	<u>\$11,186</u>	<u>\$ 865,121</u>	<u>\$109,842,563</u>
GENERAL FUND										
Budgeted	\$750,362	\$ 775,969		\$3,040,470			\$75,010,375			\$ 79,577,176
Actual	<u>748,146</u>	<u>773,460</u>		<u>3,040,470</u>			<u>75,010,375</u>			<u>79,572,451</u>
Unspent Budget Authority	<u>\$ 2,216</u>	<u>\$ 2,509</u>		<u>\$ -0-</u>			<u>\$ -0-</u>			<u>\$ 4,725</u>
SPECIAL REVENUE FUND										
Budgeted		\$3,882,074	\$80,000			\$165,472	\$18,049,000	\$11,186	\$1,196,799	\$ 23,384,531
Actual		<u>3,855,626</u>	<u>55,190</u>			<u>150,931</u>	<u>18,049,000</u>	<u>11,186</u>	<u>865,121</u>	<u>22,987,054</u>
Unspent Budget Authority		<u>\$ 26,448</u>	<u>\$24,810</u>			<u>\$ 14,541</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 331,678</u>	<u>\$ 397,477</u>
ENTERPRISE FUND ¹										
Budgeted					\$8,302,000					\$ 8,302,000
Actual					<u>7,283,058</u>					<u>7,283,058</u>
Unspent Budget Authority					<u>\$1,018,942</u>					<u>\$ 1,018,942</u>

¹ See footnote six on page 16.

² See footnote five on page 16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 17.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Commissioner of Higher Education	Student Assistance	Education For Economic Security Grant	Community College Assistance	Talent Search	Appropriation Distribution	Guaranteed Student Loan	Total
PERSONAL SERVICES								
Salaries	\$484,878				\$ 99,843		\$ 114,644	\$ 699,365
Other Compensation	750							750
Employee Benefits	81,604				20,779		22,628	125,011
Total	<u>567,232</u>				<u>120,622</u>		<u>137,272</u>	<u>825,126</u>
OPERATING EXPENSES								
Contracted Services	39,605		\$ 2,202		3,196		483,924	528,927
Supplies & Materials	13,048		37		958		3,552	17,595
Communications	25,217		196		6,253		9,893	41,559
Travel	21,876		907		11,994		18,362	53,139
Rent	81,741				228		12,188	94,157
Utilities	8,170							8,170
Repair & Maintenance	9,647		102		1,187		3,576	14,512
Other Expenses	11,541				13,356		13,121	38,018
Total	<u>210,845</u>		<u>3,444</u>		<u>37,172</u>		<u>544,616</u>	<u>796,077</u>
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	17,518						4,631	22,149
Total	<u>17,518</u>						<u>4,631</u>	<u>22,149</u>
LOCAL ASSISTANCE								
From State Sources		\$ 53,000		\$3,184,164 ¹				3,237,164
Total		<u>53,000</u>		<u>3,184,164</u>				<u>3,237,164</u>
GRANTS								
From State Sources		4,386,206						4,386,206
From Federal Sources		193,189	114,133					307,322
Total		<u>4,579,395</u>	<u>114,133</u>					<u>4,693,528</u>
TRANSFERS								
Accounting Entity Transfers						\$97,115,968 ¹		97,115,968
Total						<u>97,115,968</u>		<u>97,115,968</u>
TOTAL PROGRAM EXPENDITURES	<u>\$795,595</u>	<u>\$4,632,395</u>	<u>\$117,577</u>	<u>\$3,184,164</u>	<u>\$157,794</u>	<u>\$97,115,968</u>	<u>\$ 686,519</u>	<u>\$106,690,012</u>
GENERAL FUND								
Budgeted	\$815,374	\$2,026,496		\$3,189,307		\$82,731,968		\$ 88,763,145
Actual	795,595	2,017,878		3,184,164		82,731,968		88,729,605
Unspent Budget Authority	<u>\$ 19,779</u>	<u>\$ 8,618</u>		<u>\$ 5,143</u>		<u>\$ -0-</u>		<u>\$ 33,540</u>
SPECIAL REVENUE FUND								
Budgeted		\$2,631,642	\$133,650		\$167,571	\$14,384,000	\$1,135,247	\$ 18,452,110
Actual		2,614,517	117,577		157,794	14,384,000	686,519	17,960,407
Unspent Budget Authority		<u>\$ 17,125</u>	<u>\$ 16,073</u>		<u>\$ 9,777</u>	<u>\$ -0-</u>	<u>\$ 448,728</u>	<u>\$ 491,703</u>

¹ See footnote five on page 16.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 17.

COMMISSIONER OF HIGHER EDUCATION
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

CHE uses the modified accrual basis of accounting which is described in the Montana Operations Manual, for governmental funds. Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay liabilities of the current period.

CHE uses the accrual basis of accounting for the proprietary fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred (if measurable).

B. BASIS OF PRESENTATION

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following funds are used by CHE:

Governmental Fund Category

General - accounts for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for general operations of CHE and distribution to the six university units and three community colleges for their general operations.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund. This includes six-mill levy distribution to the six university units and the activities of the guaranteed student loan and other federal programs.

Proprietary Fund Category

Enterprise - accounts for operations that are financed and operated in a manner similar to private business enterprises. This is for the operation of the university system's health insurance program.

2. ANNUAL AND SICK LEAVE

Employees at CHE accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of CHE. Expenditures for termination pay currently are absorbed in the annual operational costs of CHE. At June 30, 1987, CHE had a liability of \$59,629 for annual leave and \$36,356 for sick leave.

3. PENSION PLAN

Employees of CHE are covered by the Montana Public Employees' Retirement System (PERS) and Teacher's Retirement System (TRS). CHE's contributions for the two plans were \$45,664 in fiscal year 1985-86 and \$42,229 in fiscal year 1986-87.

4. GENERAL FUND BALANCE

The General Fund is a single account with one statewide fund balance. Agencies have the authority to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. TRANSFERS IN AND OUT

Section 15-10-105 and 20-25-423, MCA, levy a property tax of six mills to support, maintain and improve the Montana University System. The counties collect the tax and remit it to the State Treasurer. CHE subsequently distributes these moneys to the six universities for general operations. CHE accounts for this activity in the Special Revenue Fund as a cash transfer in and a budgeted transfer out.

House Bill 30, Special Session, June 1986 appropriated general fund moneys to CHE for distribution to the six units of the university system and three community colleges. CHE accounted for this activity in the General Fund as support from State of Montana and budgeted transfers out to universities and local assistance expenditures to community colleges.

6. CHANGE IN ACCOUNTING POLICY

The Montana University System's health insurance coverage is a self-insurance program. From fiscal year 1983-84 through fiscal year 1985-86 the program was an auxiliary enterprise account at Montana College of Mineral Science and Technology. When it was determined that interest earnings could be retained in the proprietary fund, the program was transferred to CHE. The residual equity transfer of \$3,205,876 occurred at the beginning of fiscal year 1986-87.

7. SPECIAL REVENUE FUND ENDING FUND BALANCE

At June 30, 1987, the Special Revenue Fund had a negative fund balance of \$445,281. This represents a \$1.7 million negative balance in the university millage account offset with a \$1.3 million balance in the GSL account. The negative balance occurs due to timing of receipts from the Department of Revenue.

8. SUBSEQUENT EVENTS

A. At the present time, the GSL program utilizes the United Student Aid Funds (USAF) to service its loans. During the next two years GSL is

going to phase in servicing the loans in-house and therefore will no longer need USAF services.

B. The 50th Legislative Session transferred the governance of the vocational-technical centers to the board. The board and CHE have general administrative and supervisory control over the vocational-technical centers beginning in fiscal year 1987-88.

AUDITOR'S OPINION LETTER
AND
BOARD OF REGENTS' FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

We issued a qualified opinion on the Schedule of Budgeted Revenue and Transfers In for fiscal year 1985-86; the Schedule of Budgeted Program Expenditures by Object and Fund for fiscal year 1986-87, and the Schedule of Changes in Fund Balances for the two fiscal years ended June 30, 1987. A qualified opinion means that because of an overdistribution of coal tax interest from Department of Commerce and CHE's paying for various board expenditures, the reader should exercise caution when using financial information from these schedules and the related information on the Statewide Budgeting and Accounting System.

The unqualified opinion issued on the remaining schedules means that the reader may rely on the reasonableness of the financial information presented in the schedules.



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Board of Regents of Higher Education (board) for each of the two fiscal years ending June 30, 1986 and 1987 as shown on pages 20 through 26. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the board's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

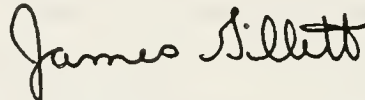
During fiscal year 1985-86 the board received an over distribution of Coal Tax interest from the Department of Commerce. This resulted in the Special Revenue Fund Other Financing Sources and Cash Transfers Out being overstated by \$296,498 in fiscal year 1985-86 on the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual and the Schedule of Changes in Fund Balances.

The Commissioner of Higher Education's office paid \$7,986 for various board General Fund expenditures. This resulted in the General Fund expenditures and Support From State of Montana being understated by \$7,986 in fiscal year 1986-87 on the Schedule of Budgeted Program Expenditures by Object and Fund and the Schedule of Changes in Fund Balances.

In our opinion, except for the effects of the matter described in paragraphs three and four, the Schedule of Changes in Fund Balances for the two fiscal years ended June 30, 1987, the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, for fiscal year 1985-86, and the Schedule of Program Expenditures by Object and Fund for fiscal year 1986-87, present fairly the results of operations of the board in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

In our opinion the Schedule of Budgeted Revenue - Estimate and Actual for fiscal year 1986-87 and the Schedule of Program Expenditures by Object and Fund for fiscal year 1985-86 present fairly the results of operations of the board in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in black ink, reading "James Gillett". The signature is written in a cursive, flowing style.

James Gillett, CPA
Deputy Legislative Auditor

February 24, 1988

BOARD OF REGENTS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Funds</u>
FUND BALANCE: July 1, 1985	\$ <u>-0-</u>	<u>\$1,153,129</u>
ADDITIONS		
<u>Fiscal Year 1985-86</u>		
Budgeted Revenue & Transfers In		2,586,493
Prior Year Transfer-In Adjustments		21,833
Support From State Of Montana	\$22,523	
<u>Fiscal Year 1986-87</u>		
Budgeted Revenue & Transfers In		3,133,977
Prior Year Transfer-In Adjustments		186,533
Support From State Of Montana	26,318	
Direct Entries to Fund Balance		<u>43,623</u>
Total Additions	<u>48,841</u>	<u>5,972,459</u>
REDUCTIONS		
<u>Fiscal Year 1985-86</u>		
Budgeted Expenditures	22,586	
Prior Year Expenditure Adjustments	(63)	
Cash Transfer Out		2,421,328
<u>Fiscal Year 1986-87</u>		
Budgeted Expenditures	26,347	
Prior Year Expenditure Adjustments	(29)	
Cash Transfer Out		<u>3,664,805</u>
Total Reductions	<u>48,841</u>	<u>6,086,133</u>
FUND BALANCE: June 30, 1987	\$ <u>-0-</u>	<u>\$1,039,455</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules pages 25 through 26.

BOARD OF REGENTS
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Other Financing¹ Sources</u>
SPECIAL REVENUE FUND	
Estimated Revenue	\$2,752,000
Actual Revenue	<u>3,133,977</u>
Collections Over (Under) Estimate	\$ <u>381,977</u>

¹ See footnote three on page 26.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 25 through 26.

BOARD OF REGENTS
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Other Financing¹ Sources</u>
SPECIAL REVENUE FUND	
Estimated Revenue	\$2,270,000
Actual Revenue	<u>2,586,493</u>
Estimate Over (Under) Actual	<u>\$ 316,493</u>

¹See footnote three on page 26.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 25 through 26.

BOARD OF REGENTS
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

Administration

PERSONAL SERVICES	
Other Compensation	\$11,190
Total	<u>11,190</u>
OPERATING EXPENSES	
Contracted Services	218
Supplies & Materials	302
Communications	1,176
Travel	12,450
Other Expenses	<u>1,010</u>
Total	<u>15,156</u>
TOTAL PROGRAM EXPENDITURES	<u>\$26,346</u>
GENERAL FUND	
Budgeted	\$26,346
Actual	<u>26,346</u>
Unspent Budget Authority	<u>\$ -0-</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 25 through 26.

BOARD OF REGENTS
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Administration</u>
PERSONAL SERVICES	
Other Compensation	\$ <u>5,600</u>
Total	<u>5,600</u>
OPERATING EXPENSES	
Contracted Services	1,083
Supplies & Materials	396
Communications	1,471
Travel	11,062
Other Expenses	<u>2,974</u>
Total	<u>16,986</u>
TOTAL PROGRAM EXPENDITURES	<u>\$22,586</u>
GENERAL FUND	
Budgeted	\$22,639
Actual	<u>22,586</u>
Unspent Budget Authority	<u>\$ 53</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 25 through 26.

BOARD OF REGENTS OF HIGHER EDUCATION
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The board uses the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay liabilities of the current period.

B. BASIS OF PRESENTATION

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following funds are used by the board:

General - accounts for all financial resources except those required to be accounted for in another fund. These are funds appropriated for general operations of the board.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund. This includes coal tax funds for the operations of the WICHIE and WAMI Student Assistance programs.

2. GENERAL FUND BALANCE

The General Fund is a single account with one statewide fund balance. Agencies have the authority to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

3. COAL TAX

In accordance with Section 90-6-211, MCA, the "Other Financing Source" shown on the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual represents Coal Tax moneys from the Department of Commerce.

4. SUBSEQUENT EVENT

The 50th Legislative Session transferred the governance of the vocational-technical centers to the board. The board and CHE have general administrative and supervisory control over the vocational-technical centers beginning in fiscal year 1987-88.

AGENCY RESPONSE



THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-3104
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

RECEIVED

JUN 03 1983

MONTANA LEGISLATIVE
AUDITOR

June 2, 1988

Mr. Scott A. Seacat
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is our written response to your report on the audit of the Board of Regents and the Office of the Commissioner of Higher Education for the two fiscal years ending June 30, 1987.

On behalf of the staff of the Board of Regents, I want to thank you and your representatives for your cooperation and professionalism in conducting this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "John H. Noble, Jr.".

John H. Noble, Jr.
Deputy Commissioner for
Management and Fiscal Affairs

JHN:dkh
Enclosure

RECOMMENDATION #1

We recommend the Office of the Commissioner of Higher Education:

- A. Limit expenditures to those authorized by the Legislature;
- B. Compensate Board members in compliance with State Law; and
- C. Charge expenditures to the proper fiscal year.

RESPONSE

Concur.

The Board of Regents has full power, responsibility and authority to supervise, coordinate, manage and control the Montana University System. In carrying out these duties, the Regents must meet several times a year in Helena and on the various campuses, both as a full Board and, on occasion, as subcommittees. The Regents have a legal obligation to fulfill these responsibilities and, if their own budget is insufficient to allow them to carry on their activities, they have the authority to transfer funds for that purpose from the entities under their governance authority. This Legislative Audit report concludes that the Regents cannot voluntarily relinquish compensation. Since it is not prudent or legally proper for the Regents to forego exercise of their governance authority once their appropriation authority has been spent, other alternatives must be sought. By the end of May 1988, the Regents had fully expended their appropriation authority. In order to allow the Regents to carry out their duties for the remainder of the fiscal year, they are transferring budget authority from an entity over which they exercise plenary authority, in this case, the Office of the Commissioner of Higher Education.

During the next Legislative session, the Board will seek legislation to appropriate funds for the Board as an item within the Office of the Commissioner of Higher Education's appropriation. This will allow for a smoother transfer of budget authority from one program to another within the same agency.

RECOMMENDATION #2

We recommend the Office of the Commissioner of Higher Education:

- A. Amend its fee waiver policy to comply with State Laws; or
- B. Seek legislation to change the State Laws concerning fee waivers.

No response. The matter is in litigation, Case #DV 87-47, Thirteenth Judicial District, Carbon County (Red Lodge), Montana.

RECOMMENDATION #3

We recommend the Office of the Commissioner of Higher Education submit Federal reports in accordance with Federal reporting requirements.

RESPONSE

Concur.

The Office of the Commissioner of Higher Education will continue to work with the various institutions involved to improve the timeliness of their reporting. In addition, we will seek written permission from the Federal government for all needed extensions of the initial report deadlines.

RECOMMENDATION #4

We recommend the Office of the Commissioner of Higher Education:

- A. Adequately document Guaranteed Student Loan Program reviews.
- B. Perform a secondary review of Guaranteed Student Loan Program review work papers and reports.

RESPONSE

Concur.

During Fiscal years 1988 and 1989, the Guaranteed Student Loan Program is expanding its operations in order to handle the processing function for guaranteed student loans. During this expansion, an additional program reviewer will be hired. With the additional staff member, new procedures will be implemented to ensure that a secondary review of program work papers is performed and documented.

